

## **2011-118 AUDIT SCOPE AND OBJECTIVES— California Statewide Communities Development Authority and the California Municipal Financial Authority—Joint Powers Authorities**

The audit by the Bureau of State Audits will provide independently developed and verified information related to the business and compensation models of the California Statewide Communities Development Authority (California Communities) and the California Municipal Finance authority (CMFA) and will include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Determine whether the structure and significant policies and practices of the authorities comply with the California Joint Exercise of Powers Act.
3. Review the financial, personnel, and structural relationships for each authority and their particular sponsoring entities to determine whether those relationships present a potential conflict of interest.
4. Determine whether the authorities are subject to the Political Reform Act.
5. Evaluate the process, including oversight by the authority board members, each authority used when selecting and compensating bond counsel, outside consultants, and other contractual service employees to determine if it is reasonable.
6. Review and assess how compensation is determined for staff members (or consultants working as staff) who evaluate and recommend approval of financing requests and whether the compensation system creates potential conflicts of interest for those staff members.
7. For the period from 2006 through 2010, review and assess a sample of financial transactions of each authority to determine compliance with applicable laws, rules, and regulations. Specifically, review the level of oversight, reporting, and transparency before and after the enactment of SB 99.
8. Based on a sample of projects, review and assess the fees charged to applicants by California Communities and CMFA and compare those fees with industry standards and the fees charged by other conduit financing entities.
9. Examine each authority's use of fee revenues that are in excess of their operating costs, including the extent to which excess revenues are used to further a public benefit.
10. Based on a sample of projects, review and assess the means by which public benefits are quantified for each project financed and the criteria used by each authority's board members to determine whether to support individual financing requests.

11. Review the number and rate of material defaults and material events for bond-financed projects for each authority in the past five years and how those rates compare to any industry standards and other conduit financing entities.
12. Compare the business model utilized by California Communities and CMFA to two or three different conduit financiers that perform similar duties and functions throughout the State to identify alternative models and best practices.
13. Review and assess any other issues that are significant to the operation of California Communities and CMFA.